

Message Text

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NSC-05 OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04

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C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 10259

FOR FSE (BOSWORTH)

E.O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: IEA: BACKGROUND DOCUMENTS FOR APRIL 28-30

SLT MEETING

BEGIN TEXT:

DEFINITION OF THE TERM "IMPORTED" OIL

AT ITS FIFTH MEETING, THE GOVERNING BOARD DECIDED THAT PARTICIPATING COUNTRIES WILL IMPLEMENT MEASURES OF THEIR OWN CHOICE "IF IMPORTED OIL IS SOLD WITHIN THEIR ECONOMIES BELOW A CERTAIN AGREED PRICE LEVEL." (IEA/GB(75)17 ANNEX I). THE TERM "IMPORTED OIL" REQUIRES FURTHER INTERPRETATION; IN PARTICULAR THE TERM "IMPORTED" MUST BE CLEARLY DEFINED. WITH REGARD TO CRUDE OIL THE FOLLOWING DEFINITIONS MIGHT APPLY:

I. GENERAL DEFINITIONS.

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THE TERM IMPORTED OIL COULD BE DEFINED AS FOLLOWS:

DEFINITION A: NON-DOMESTICALLY-PRODUCED OIL.

DEFINITION B: OIL NOT PRODUCED WITHIN THE IEA AREA.

DEFINITION C: OPEC OIL.

THE THREE DIFFERENT DEFINITIONS RAISE A NUMBER OF DIFFERENT IMPLICATIONS.

L) DEGREE OF SIMPLICITY OF ADMINISTRATIVE ENFORCEMENT OF THE SYSTEM.

DEFINITION A: NO NEED TO CONTROL INCOMING OIL BY SOURCE. ALL OIL CROSSING THE BORDER INTO AN IEA COUNTRY IS IMPORTED OIL UNDER THE TERMS OF THE BOARD DECISION.

DEFINITION B: OIL CROSSING THE BORDER INTO AN IEA COUNTRY MUST BE CONTROLLED AS TO ITS ORIGIN. THIS MIGHT BE LESS DIFFICULT IN THE CASE OF OIL THAT IS IMPORTED DIRECTLY FROM A NON-IEA COUNTRY. HOWEVER, SEVERE PROBLEMS COULD ARISE WHEN THE OIL COMES FROM OTHER IEA COUNTRIES, SINCE IN THIS CASE THE POSSIBILITY THAT THE INCOMING OIL IS A MIXTURE OF IEA AND NON-IEA OIL HAS TO BE TAKEN INTO ACCOUNT.

DEFINITION C: CONTROL OF ORIGINS OF OIL BECOMES EVEN MORE DIFFICULT THAN IN THE CASE OF DEFINITION B. WHILE IN THE CASE OF DEFINITION B THE IMPORTING COUNTRY MIGHT HAVE THE SUPPORT OF THE EXPORTING IEA COUNTRY TO ASCERTAIN THE ORIGIN OF INCOMING OIL, IT WOULD BE VERY DOUBTFUL IF THE IMPORTING COUNTRY COULD COUNT ON THE WILLINGNESS OF NON-IEA COUNTRIES TO COOPERATE IN THIS REGARD.

2) CONFLICTS WITH INTERNATIONAL TRADE OBLIGATIONS.

AS WAS ALREADY POINTED OUT IN THE PAPER SUBMITTED BY THE NETHERLANDS DELEGATION, THERE MIGHT BE, IN ANY CASE, SEVERE CONFLICTS BETWEEN THE ESTABLISHMENT OF A COMMON MINIMUM PROTECTED PRICE FOR IMPORTED OIL AND EXISTING INTERNATIONAL TRADE OBLIGATIONS. IN GENERAL, HOWEVER, THE LEGAL CONFLICTS UNDER DEFINITION A, PARTICULARLY AS REGARDS THE PRINCIPLE OF NON-DISCRIMINATION, MIGHT BE MINOR IN THE CASE OF DEFINITION A, AND

3) PREFERENCE FOR IEA-PRODUCED OIL AND NON-OPEC OIL.

DEFINITION A: IEA OIL RECEIVES A PREFERENCE ONLY IN THE DOMESTIC MARKET OF THE PRODUCING COUNTRY. IN FOREIGN MARKETS IEA OIL WOULD HAVE THE SAME PRICE LEVEL

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AS NON-IEA OIL. ALTHOUGH THERE MIGHT BE AN ARGUMENT THAT IEA-PRODUCED OIL MIGHT BE PREFERRED BY IEA COUNTRIES ON SECURITY GROUNDS, OTHER QUESTIONS ARISE. THE EQUAL TREATMENT OF IEA OIL AND NON-IEA OIL ON FOREIGN MARKETS COULD BE REGARDED AS AN ADDITIONAL RISK, TO IEA OIL PRODUCERS, OF DEVELOPING OIL RESOURCES WHICH EXCEED THE DOMESTIC DEMAND OF THE OIL PRODUCING IEA COUNTRY, ESPECIALLY IF THE IEA-PRODUCED OIL IS OF AN INFERIOR

QUALITY. ON THE OTHER HAND, NO IEA COUNTRY IS ABLE TO AFFECT ITS DOMESTIC OIL PRICE LEVEL BY DEVELOPING LOW COST ALTERNATIVE ENERGY RESOURCES IN OTHER IEA COUNTRIES. THIS MIGHT TURN OUT TO BE A CONSTRAINT ON INTERNATIONAL COOPERATION IN THIS FIELD.

THE SAME ARGUMENTS ARE VALID WITH REGARD TO NON-IEA/NON-OPEC OIL, OIL WHICH WOULD NOT RECEIVE A PREFERENCE.

DEFINITION B: IEA OIL RECEIVES PREFERENTIAL

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TREATMENT IN THE DOMESTIC MARKETS OF ALL IEA COUNTRIES. THIS MIGHT PROMOTE EFFORTS OF SEVERAL IEA COUNTRIES TO DEVELOP ALTERNATIVE OIL RESOURCES, EXCEEDING THEIR DOMESTIC NEEDS, AS WELL AS PROMOTING INTERNATIONAL COOPERATION AMONG IEA COUNTRIES IN THIS FIELD. THE FACT THAT NON-IEA/NON-OPEC OIL HAS NO PREFERENCE AT ALL COULD FOCUS THE EFFORTS OF IEA COUNTRIES ON THE DEVELOPMENT OF

ENERGY RESOURCES WITHIN THE IEA-AREA, WHILE THERE MIGHT BE A CONSTRAINT ON THE DEVELOPMENT OF NON-IEA/NON-OPEC OIL.

DEFINITION C: IEA AND NON-OPEC OIL RECEIVES EQUAL PREFERENCE IN THE DOMESTIC MARKETS OF ALL IEA COUNTRIES. THIS MIGHT WEAKEN THE EFFORTS OF IEA MEMBER COUNTRIES TO DEVELOP NEW SOURCES WITHIN THE IEA AREA. ON THE OTHER HAND, THE QUANTITY OF AVAILABLE NEW SOURCES OF CHEAP ENERGY IS RAISED IF NON-OPEC OIL HAS THE SAME PREFERENCE AS IEA-PRODUCED OIL.

4) EFFECTS ON COMPETITION.

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DEFINITION A: IEA OIL AND NON-IEA OIL ARE IMPORTED AT THE SAME PRICE LEVEL. THEREFORE, COMPETITION AMONG DIFFERENT OIL PRODUCTS IS LIMITED SOLELY TO DIFFERENT EFFICIENCIES AND COSTS IN REFINING.

DEFINITION B: PRICE DIFFERENCES BETWEEN THE IMPORTED IEA OIL ON THE ONE SIDE, AND VARIOUS NON-IEA OILS ON THE OTHER COULD STRENGTHEN COMPETITION. RELATIVELY INEXPENSIVE PRODUCTS DERIVED FROM IEA CRUDE OIL IMPORTED AT A LOWER COST MIGHT BRING PRESSURE TO BEAR ON THE PRICE OF PRODUCTS WHICH ARE REFINED ON THE BASIS OF HIGHER COST NON-IEA PRODUCED OIL BY REDUCING THE MARGIN OF REFINERY EARNINGS.

DEFINITION C: THE COMPETITION MIGHT BE MORE INTENSE THAN IN THE CASE OF DEFINITION B.

II. ADDITIONAL ELEMENTS OF DEFINITION.

EACH OF THE THREE DEFINITIONS ABOVE COULD BE AMPLIFIED BY A FURTHER ELEMENT: THAT OIL MUST BE EARMARKED FOR FINAL DOMESTIC CONSUMPTION TO BE REGARDED AS "IMPORTED OIL" UNDER THE TERMS OF THE BOARD DECISION. THAT WOULD MEAN THAT IMPORT AND RE-EXPORT OF THIS OIL IN EITHER REFINED OR CRUDE FORM WOULD NOT BE COVERED BY THE BOARD'S DECISION.

THE IMPLICATIONS OF THIS ARE AS FOLLOWS:

- THE ADMINISTRATIVE ENFORCEMENT OF THE SYSTEM WOULD BE DIFFICULT.

- THE GOVERNMENT OF THE COUNTRY IN WHICH THE OIL IS FINALLY CONSUMED WOULD EARN THE INCOME FROM CUSTOMS, TAXES, ETC., EVEN IF THE OIL IS IMPORTED VIA ANOTHER IEA COUNTRY.

- THE COMPETITIVENESS OF REFINERIES WITHIN IEA COUNTRIES, COMPARED TO REFINERIES OUTSIDE OF THE IEA AREA, IS MAINTAINED.

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